

Fiscal Note

Fiscal Services Division



HF 221 – Military Retirement Pay Exemption (LSB 1471HV.1)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.iowa.gov)
Fiscal Note Version – Revised

Description

House File 221 exempts federal retirement pay received by a resident for military service from the state individual income tax. The exemption is effective for tax years 2013 and after.

Assumptions

- 1) At the end of 2012, there were 12,818 military retirees living in Iowa and their combined taxable retirement income is estimated to be \$266.8 million.
- 2) The number of military retirees is assumed to increase 1.0% per year.
- 3) The average military retirement compensation is assumed to increase 1.7% to 2.4% per year.
- 4) Estimates are adjusted for the portion of military retirement benefits that are currently exempt through Iowa's pension exemption of \$6,000 (single) and \$12,000 (married). The military exemption will be in addition to any pension, individual retirement account, or 401(k) retirement income the retired military veteran may receive.
- 5) The average marginal tax rate for persons receiving pensions is 5.3% to 5.6%.
- 6) Statewide, the local option income surtax for schools tax equals 2.7% of state individual income tax revenue, net of refunds.

Fiscal Impact

The income tax exemption contained in HF 221 is projected to reduce state income taxes owed by Iowa taxpayers by \$9.5 million in tax year 2013 (\$900,000 decrease to the General Fund for FY 2013) and grow due to cost of living increases and changes in the number of taxpayers benefited to \$10.7 million by tax year 2017. The state General Fund and local option income surtax impacts, by fiscal year, are provided in the following table.

Summary of Fiscal Impacts

Dollars in millions

	State General Fund Impact	Local Option Income Surtax Impact
FY 2013	\$ -0.9	\$ 0.0
FY 2014	-12.7	-0.3
FY 2015	-10.0	-0.3
FY 2016	-10.3	-0.3
FY 2017	-10.7	-0.3

The military retirement tax exemption reduces taxable income and also reduces the amount of surtax raised by any school district that has a local option income surtax. Statewide, that impact is 2.7% of State individual income tax revenue, or \$24,000 in FY 2013, growing to an estimated \$289,000 in FY 2017 and after.

Source

Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
